

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

| | | |
|-------------------------------|---|---------------|
| THE APPLICATION OF LAKEWOOD |) | |
| VALLEY DEVELOPMENT COMPANY |) | |
| FOR AN ADJUSTMENT OF RATES |) | CASE NO. 8908 |
| PURSUANT TO THE ALTERNATIVE |) | |
| PROCEDURE FOR SMALL UTILITIES |) | |

O R D E R

On September 27, 1983, Lakewood Valley Development Company ("Lakewood Valley") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

Lakewood Valley requested a rate which would produce an annual increase of \$5,316 from its 209 customers. In this Order, the Commission has allowed additional revenues of \$4,015.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rate, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Lakewood Valley incurred a net loss for the test period of \$4,536. Lakewood Valley proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Operating Revenues

The 1982 annual report of Lakewood Valley showed total operating revenues of \$26,728. An adjustment of \$2,089¹ was made to normalize its test year revenues resulting in normalized test year revenues of \$28,817. The increase required by Lakewood Valley to produce allowed annual revenues of \$32,832 is, therefore, \$4,015.

Purchased Power Expense

Lakewood Valley recorded a purchased power expense for the test period of \$6,062 and requested a pro forma increase of \$707 based on a projected increase of approximately 11.67 percent. The Commission has re-computed the monthly power bills of Lakewood Valley for the test period using as a basis for its computation the tariff of Kentucky Utilities Company (Lakewood Valley's power

¹ $\$11.49 \times 209 \times 12 = \$28,817 - \$26,728 = \$2,089.$

supplier) dated September 1, 1983, resulting in power cost of approximately \$6,108. The overall purchased power expense remained at test year level due to a restructuring of Kentucky Utility Company's rates applicable to LP customers. Therefore, the Commission has reduced the pro forma power expense of Lakewood Valley by \$707.

Chemicals

Lakewood Valley projected chemical expense of \$245 for the test period which included \$100 as a drum deposit. Drum deposits are refundable and are not an operating expense. Therefore, the Commission had denied this portion of Lakewood Valley's test period expense for chemicals.

Rate Case Expense

It is the Commission's opinion and policy in this and future ARF cases that if rate case expenses exceed \$1,000, then the burden of proof is on the applicant to show that such fees were required because of unusual circumstances. If the unusual circumstances involve poor records, then the level of on-going accounting and management expenses will be considered in determining the reasonableness of the rate case expenses. If it is determined that the fees are high because of management preferences, then the fees may be disallowed or divided between management and ratepayers.

In the original application, Lakewood Valley estimated rate case expenses of \$1,200 to be amortized over a 2-year period. Lakewood Valley stated, in a response to an information request of this Commission dated December 16, 1983, that it had incurred

accounting expense of \$900 related to the preparation of the rate application. The Commission has determined that total rate case expenses of \$900 amortized over a 3-year period is the fair, just and reasonable amount to be paid by the ratepayers, and it has, therefore, reduced rate case expenses by \$300.

Therefore, Lakewood Valley's adjusted operations at the end of the test period are as follows:

| | <u>Lakewood Valley Adjusted</u> | <u>Commission Adjustments</u> | <u>Commission Adjusted</u> |
|--------------------|---|-----------------------------------|--------------------------------|
| Operating Revenues | \$26,728 | \$ 2,089 | \$ 28,817 |
| Operating Expenses | <u>30,033</u> | <u>(1,141)</u> | <u>28,892</u> |
| Operating Income | <u><u>\$(3,305)</u></u> | <u><u>\$ 3,230</u></u> | <u><u>\$ (75)</u></u> |

REVENUE REQUIREMENTS

The Commission is of the opinion that Lakewood Valley's adjusted operating loss is unfair, unjust and unreasonable. The Commission is further of the opinion that an operating ratio of 88 percent is fair, just and reasonable in that it will allow Lakewood Valley to meet its operating expenses and provide a reasonable return to its stockholders. Therefore, the Commission finds that Lakewood valley should be permitted to increase its rate to produce an increase in annual revenue of \$4,015,² which includes federal and state income taxes of \$838.

² $\$28,892 \div 88 \text{ percent} = \$32,832 - \$28,817 = \$4,015.$

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Lakewood Valley would produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

2. The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service rendered to Lakewood Valley's customers and should produce annual revenues of approximately \$32,832.

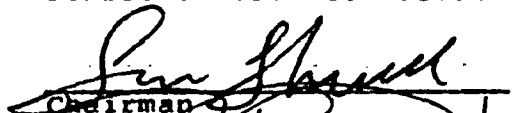

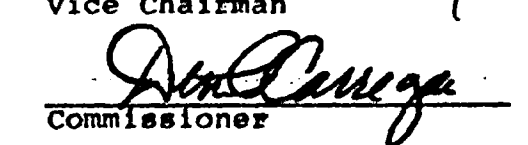
IT IS THEREFORE ORDERED that the rate in Appendix A be and it hereby is the fair, just and reasonable rate of Lakewood Valley for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Lakewood Valley be and it hereby is denied.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Lakewood Valley shall file with this Commission its tariff sheets setting forth the rate approved herein and a copy of its rules and regulations for providing sewer service.

Done at Frankfort, Kentucky, this 26th day of January, 1984.

PUBLIC SERVICE COMMISSION


Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 8908 DATED 1/26/84

The following rate is prescribed for the customers in the area served by Lakewood Valley Development Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE: Monthly

Residential

\$13.09